COURSE GUIDE

Semester 1, 2020

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Course Information

Description and objectives
The field of International Economics has both a microeconomic and a macroeconomic side. The former is the subject of ECON302 (International Trade), whereas ECON316 focuses on a variety of macroeconomic and monetary issues affecting ‘open’ economies – i.e., those that engage in trade and investment transactions with other economies.

The broad objective of this paper is to develop your ability to (i) think independently, critically and analytically, and (ii) communicate ideas and arguments, both orally and in writing. Its more specific objective is to develop your knowledge and understanding of:
• Key macroeconomic variables (e.g., the balance of payments, the money supply, the current account, the exchange rate, the price level, national income, etc.) and their relationships with each other.
• The effects of shocks (including policy shocks) on an open economy from both Keynesian and Monetarist perspectives.
• The implications of the international transmission of shocks for macroeconomic policy makers.
• The economic factors relevant to the choice of an exchange rate regime.
• The role of the international monetary system in general and the relative merits of the various systems that have operated since the late 19th century.

Prerequisites
ECON201 (or ECON271) and ECON202. ECON201 (or ECON271) may be taken as a corequisite.

Lecturer
Alan King

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Office hours
Mondays, Tuesdays and Wednesdays, 1:00–2:00PM
(and other times by arrangement)

Lectures
Thursdays, 11:00–11:50AM

Tutorials
Stream A: Tuesdays and Wednesdays, 3:00–3:50PM
Stream B: Tuesdays and Wednesdays, 4:00–4:50PM

You are expected to attend all classes. Timetable clashes are not permitted in this paper.

Readings
There is no textbook for this paper. Instead, each topic has a set of readings from a variety of sources (see pp. 4-5 below). These can be downloaded from the Course Documents folder on Blackboard.

While this saves you the cost of a textbook, it does mean that there is a lot of inconsistency in the abbreviations used for important economic concepts across the readings. I will use a consistent set in class, but it does not match that used in all the readings. See page 6 for more information.
Lectures and tutorials

The weekly lecture is used to present important background material for that week’s topic. The tutorial exercises we work through in the following Tuesday and Wednesday classes are designed to build on that material and explore the topic in much greater detail.

My lecture slides will be posted on Blackboard shortly before each lecture. However, model answers to the tutorial exercises will NOT be provided under any circumstances. (This is because they are a very poor learning tool and encourage rote learning rather than a detailed understanding of a topic.)

Tutorials are where you explain how you answered each exercise, comment on other people’s answers and seek clarification about anything that is unclear. In other words, a tutorial is a conversation among a group of people trying to understand the issues raised in the exercises. Hence, a tutorial can only work if you do some preparation beforehand and then actively participate in that conversation. How far we get in each tutorial, therefore, entirely depends on your willingness to prepare and participate. I cannot guarantee that all exercises will be covered in class time.

I am happy to help you with your pre-class preparation. You are most welcome to email me or drop by during my office hours (or, if my office hours are not convenient, email me to make an alternative time) whenever you get stuck on something.

Workload

ECON316 is an 18-point paper. In accordance with University guidelines, this equates to 12 hours of work per week throughout the semester (including the mid-semester break and the final examination period) for an average student.

As all of the internal assessment is directly linked to the tutorial exercises (see below) and actual class time accounts for only three hours per week, this means that you are expected to spend nine hours per week on the assigned readings and preparing answers for the tutorial exercises.

Electronic devices

To avoid distracting others, please do not use your phone (or any other electronic device) in class for purposes unrelated to the class. Please make sure your phone remains silent during class time.

If you wish to record a lecture or tutorial (for study purposes), you may do so. If you plan to use a laptop to take notes, you may do so. However, I suggest you first read some of the research on this practice. For example, P.A. Mueller and D.M. Oppenheimer (2014) “The pen is mightier than the keyboard: Advantages of longhand over laptop note taking.” Psychological Science, 25(6), pp. 1159–1168 (http://pss.sagepub.com/content/25/6/1159). In any case, employers tell us that the ability to take effective handwritten notes is a useful real-world skill to develop.

Blackboard (https://blackboard.otago.ac.nz/)

All ECON316 handouts, readings and announcements will be posted on Blackboard. Urgent notices may be emailed to your student email address as well. Please check Blackboard and your student email account regularly (or, at least, ensure that messages sent to your student email address are automatically forwarded to your preferred email account).
Assessment

Your overall grade is determined by your grades on two tests and the final examination. The weight on each is as follows:

- Test 1 (Thursday evening, 2 April – to be confirmed) 20% or 10%
- Test 2 (Thursday evening, 7 May – to be confirmed) 20% or 10%
- Final examination (three hour, closed book) 60% or 70% or 80%

The combination of weights that will apply in your case (i.e., 20-20-60, 10-20-70, 20-10-70 or 10-10-80) is the one that maximizes your overall grade.

Each test will contain questions taken directly from the previous four weeks’ tutorial exercises (with minimal modification): Test 1 is based on Tutorials 1–4; Test 2 is based on Tutorials 5–8. Their location and timing will be announced on Blackboard and in class in due course. Requests to be excused from a test can only be considered on medical or compassionate grounds and, if possible, should be made before the test.

In order to be allowed to sit the final examination, you will need to be granted ‘terms’. Terms will not be granted to anyone achieving an average mark below 40% across the two tests.

Past years’ final examinations can be found in the Library and online (http://www.otago.ac.nz/library/exams/). This year’s exam will have the same format as last year’s. Specifically, all questions will be compulsory and any topic may be examined. Questions used in the terms tests may reappear in the final exam. Please do not ask for model answers to past exam questions, as refusal often offends. Calculators may be used in the exam, providing they are of a type appearing on the University of Otago’s approved list of scientific and graphing calculators (i.e., the Sharp EL531 and the Casio FX82, FX95, FX100, FX570, FX9750 and FX9860 models).

Academic integrity

Academic integrity means being honest in your studying and assessments. It is the basis for ethical decision-making and behaviour in an academic context. Academic integrity is informed by the values of honesty, trust, responsibility, fairness, respect and courage. Students are expected to be aware of, and act in accordance with, the University’s Academic Integrity Policy:

www.otago.ac.nz/administration/policies/otago116838.html

Academic misconduct, such as plagiarism or cheating, is a breach of academic integrity and is taken very seriously by the University. Types of misconduct include plagiarism, copying, unauthorised collaboration, taking unauthorised material into a test or exam, impersonation, and assisting someone else’s misconduct. A more extensive list of the types of academic misconduct and associated processes and penalties is available in the University’s Student Academic Misconduct Procedures:

www.otago.ac.nz/administration/policies/otago116850.html

It is your responsibility to be aware of and use acceptable academic practices when completing your assessments. To access the information in the Academic Integrity Policy and learn more, please visit the University’s Academic Integrity website (www.otago.ac.nz/study/academicintegrity) or ask at the Student Learning Centre or Library.

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I hope you enjoy ECON316. If you have any questions about how it is run, or need help with the course material, please contact me.

Alan King.
The assigned reading for each topic is given below and should be done before its lecture (lecture dates are shown in parentheses). They are best read in the order they are listed. All readings can be found in the Course Documents folder on Blackboard.

1. **The Foreign Exchange Market** (27 February)
   - Technical note 1 (see page 7): “Approximations of CIP, PPP and UIP.”

2. **The Balance of Payments and the Money Supply** (5 March)

3. **The Current Account** (12 March)

4. **Purchasing Power Parity** (19 March)
   - Caves, Frankel and Jones (2007), pp. 358-372
   - Pilbeam (2013), pp. 141-143

5. **Modelling Macroeconomic Policy: the SOE case** (26 March)

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**TEST 1: 2 April (date, time and location to be confirmed)**

A Help Session will be held prior to the test and a Post-Test Review will be held once it has been marked (details of both will be posted on Blackboard in due course)
6. **Modelling Macroeconomic Policy: the LOE case** (2 April)
   - Daniels and Van Hoose (2014), pp. 358-362
   - Pilbeam (2013), pp. 352-369

7. **Modelling Macroeconomic Policy: extensions** (9 April)
   - Daniels and Van Hoose (2014), pp. 324-334, 348-354
   - Williamson and Milner (1991), pp. 221-222, 227-231
   - Technical note 2 (see page 9): “How IS and BP curves react when TB changes.”

### Easter/Mid-Semester Break: 10–19 April

8. **The Monetary Approach to the Balance of Payments** (23 April)

9. **Monetary Models of the Exchange Rate** (30 April)
   - Pilbeam (2013), pp. 148-158 and 164

### TEST 2: 7 May (date, time and location to be confirmed)

  **A Help Session will be held prior to the test and a Post-Test Review will be held once it has been marked**
  *(details of both will be posted on Blackboard in due course)*

10. **Choosing an Exchange Rate Regime** (7 May)
    - Krugman, Obstfeld and Melitz (2012) pp. 566-583
    - Pilbeam (2013), pp. 232-238, 417-419

11. **The International Monetary System** (14 and 21 May)

  **Spare lecture/Pre-exam Help Session** (28 May)